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NATURAL DISASTER REDUCTION: EFFECTS OF DISASTERS ON MODERN SOCIETIES

Technical session

Addendum

Role of non-life insurance in disaster management systems

Summary of presention by Mr. Takashi Onoda, Chairman, The Marine and Fire Insurance Association of Japan

1. The world has recently witnessed many large-scale natural disasters. In Japan, frequent disasters, such as storm and flood damage caused by typhoons, earthquakes and eruptions, have become an extremely important managerial issue for non-life insurance companies. For example, typhoon "Mireille" (No. 19), which made its appearance in September 1991, caused 62 deaths by the accompanying storm and flood tide and damaged 700,000 houses, incurring a total loss of ¥600 billion (or about US$ 4.5 billion in 1991) to the insurance industry. Also, in July 1993, an earthquake off the south-west shore of Hokkaido proved to be another major calamity in which more than 230 people were found dead or missing in the wake of large tidal waves and many fires.

2. Where the role of non-life insurance is considered from the standpoint of natural disaster risk management, the following problems and issues are noted:

(a) As with the insurance industries of other countries, the Japanese insurance industry has made great efforts to enhance coverage for storm, flood and earthquake insurance to better meet the needs of policy holders. These changes, however, together with the frequent occurrence of natural disasters, have rapidly increased the amount of payment for losses. Compared with other types of losses, it is extremely difficult to calculate the premium rates of natural disaster insurance. The common problem among insurance companies

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throughout the world is how to maintain the appropriate balance between coverages and premium rates for natural disaster insurance;

(b) In the aftermath of typhoon "Mireille" in 1991 and hurricane "Andrew" in 1992, many insurance and reinsurance companies went bankrupt or stopped underwritings, causing the world reinsurance market to face an unprecedented shortage of reinsurance underwriting capacity. While this conservative tendency in the market is becoming more relaxed, the premium rates remain at high levels;

(c) Being prepared for catastrophic natural disasters, the Japanese non-life insurance companies have a special system called catastrophic loss reserves. For example, when paying for the losses of typhoon "Mireille", the Japanese non-life insurance industry as a whole transferred ¥290 billion, or over US$ 2 billion, from that reserve, keeping the year's operational losses to the minimum;

(d) The Japanese non-life insurance industry is conducting fundamental studies and research concerning the risks of various disasters. Regarding natural disasters, it is researching typhoon damage, the effect of global warning on disasters and problems concerning acid rain.

3. Preceding and taking into account the problems encountered in the area of non-life insurance as regards natural disasters, the following three proposals are made:

(a) Stabilization of the reinsurance market and establishment or upgrading of government reinsurance systems;

(b) Establishment of catastrophic loss reserve systems;

(c) Mutual exchange of information on disasters.

4. Although we cannot avoid natural disasters, we should do our utmost to decrease the extent of losses by disasters. From here on, let us continue our best efforts to realize a safer world for the twenty-first century through mutual cooperation among Governments, industries and academic sectors of all countries.